

Genesee County, Michigan

75-7085

Financial Statements

June 30, 2004



REHMANN ROBSON

Certified Public Accountants

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

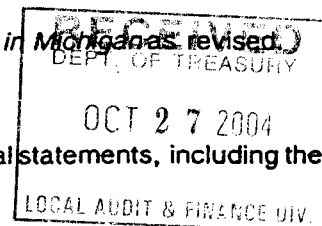
Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF LINDEN	County GENESEE
Audit Date 6/30/04	Opinion Date 8/30/04	Date Accountant Report Submitted to State: 10/26/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan*.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations



You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON, P.C.			
Street Address 5800 GRATIOT, PO BOX 2025		City SAGINAW	State MI
Accountant Signature 		ZIP 48605	

CITY OF LINDEN, MICHIGAN

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CITY OF LINDEN, MICHIGAN

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

August 30, 2004

To the City Council
City of Linden
Genesee County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***City of Linden, Michigan***, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***City of Linden***, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons of the General, Major Streets, and Local Streets governmental funds for the year then ended in conformity with accounting principles general accepted in the United States of America.

As described in Note 1, the City adopted the provisions of Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-For State and Local Governments*; Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*, as July 1, 2003. This results in a change in the format and content of the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2004, on our consideration of the **City of Linden's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on pages 3-12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **City of Linden's** basic financial statements. The combining and individual nonmajor fund financial statements and schedules, supplementary information, and schedule of expenditures of federal awards listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Rehmann Lohman

Management's Discussion and Analysis

As management of Linden, Michigan, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$6,572,475 (*net assets*). Of this amount, \$3,508,851 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$1,454,295.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,693,356. Over fifty-five percent of this total amount, or \$948,320, is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$594,876, or thirty percent of total general fund expenditures.
- The City's total debt increased by \$100,000 during the fiscal year as a result of financing park improvements (boardwalk).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected special assessments).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government (including administration and recreation), public safety, public works, and cemetery operations. The business-type activities of the City include sanitary sewer and water operations.

The government-wide financial statements can be found on pages 13-14 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains twelve individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major Street, Local Street, and N. Bridge Street 2003 Debt Service Funds, each of which are considered to be major funds. Data from the other eight governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 15-21 of this report.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its sanitary sewer and water operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for motor pool operations. Because this service predominately benefits governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sanitary sewer and water operations, both of which are considered to be major funds of the City. The equipment pool internal service fund is presented in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 22-26 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27-48 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the accompanying notes. Combining and individual fund statements and schedules can be found on pages 49-50 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of City, assets exceeded liabilities by \$6,572,475 at the close of the fiscal year.

A significant portion of the City's net assets (34%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City's Net Assets

	Governmental Activities 2003	Business-Type Activities 2003	Total 2003
Current and other assets	\$ 2,828,772	\$ 1,991,193	\$ 4,819,965
Capital assets	<u>3,760,783</u>	<u>5,403,722</u>	<u>9,164,505</u>
Total assets	<u>6,589,555</u>	<u>7,394,915</u>	<u>13,984,470</u>
Long-term liabilities			
outstanding	3,285,280	3,856,692	7,141,972
Other liabilities	<u>142,808</u>	<u>127,215</u>	<u>270,023</u>
Total liabilities	<u>3,428,088</u>	<u>3,983,907</u>	<u>7,411,995</u>
Net assets:			
Invested in capital assets, net of related debt	655,995	1,547,030	2,203,025
Restricted	612,671	247,927	860,598
Unrestricted	<u>1,892,801</u>	<u>1,616,051</u>	<u>3,508,852</u>
Total net assets	<u>\$ 3,161,467</u>	<u>\$ 3,411,008</u>	<u>\$ 6,572,475</u>

Of the remaining balance of net assets, approximately 13% (\$860,598) is restricted resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (53% percent, or \$3,508,852) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The City's net assets increased by \$1,454,295 during the fiscal year. This growth largely reflects the degree to which ongoing revenues exceeded ongoing expenses.

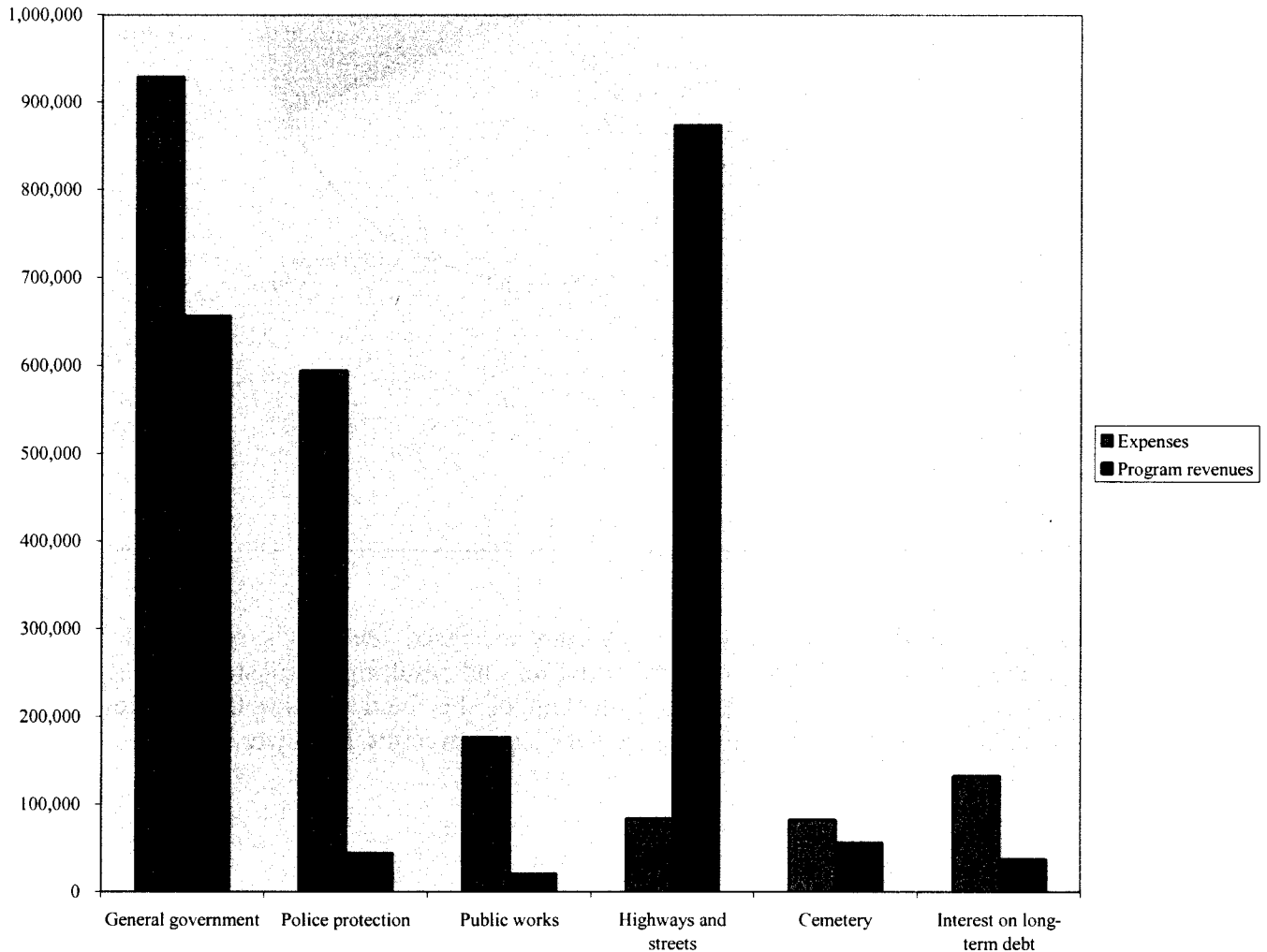
City's Changes in Net Assets

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	<u>2003</u>	<u>2003</u>	<u>2003</u>
Revenue:			
Program revenue:			
Charges for services	\$ 609,065	\$ 1,277,148	\$ 1,886,213
Operating grants and contributions	317,076	-	317,076
Capital grants and contributions	761,311	281,424	1,042,735
General revenue:			
Property taxes	950,134	-	950,134
Grants and contrib. not restricted to specific programs	264,263	-	264,263
Other	30,319	20,300	50,619
Total revenue	<u>2,932,168</u>	<u>1,578,872</u>	<u>4,511,040</u>
Expenses:			
General government	928,819	-	928,819
Public safety	594,177	-	594,177
Public works	176,687	-	176,687
Highways and streets	83,693	-	83,693
Cemetery	82,588	-	82,588
Interest on long-term debt	132,887	-	132,887
Sanitary sewer	-	641,109	641,109
Water	-	416,785	416,785
Total liabilities	<u>1,998,851</u>	<u>1,057,894</u>	<u>3,056,745</u>
Increase (decrease) in net assets	933,317	520,978	1,454,295
Net assets – beginning of year	<u>2,228,150</u>	<u>2,890,030</u>	<u>5,118,180</u>
Total net assets	<u>\$ 3,161,467</u>	<u>\$ 3,411,008</u>	<u>\$ 6,572,475</u>

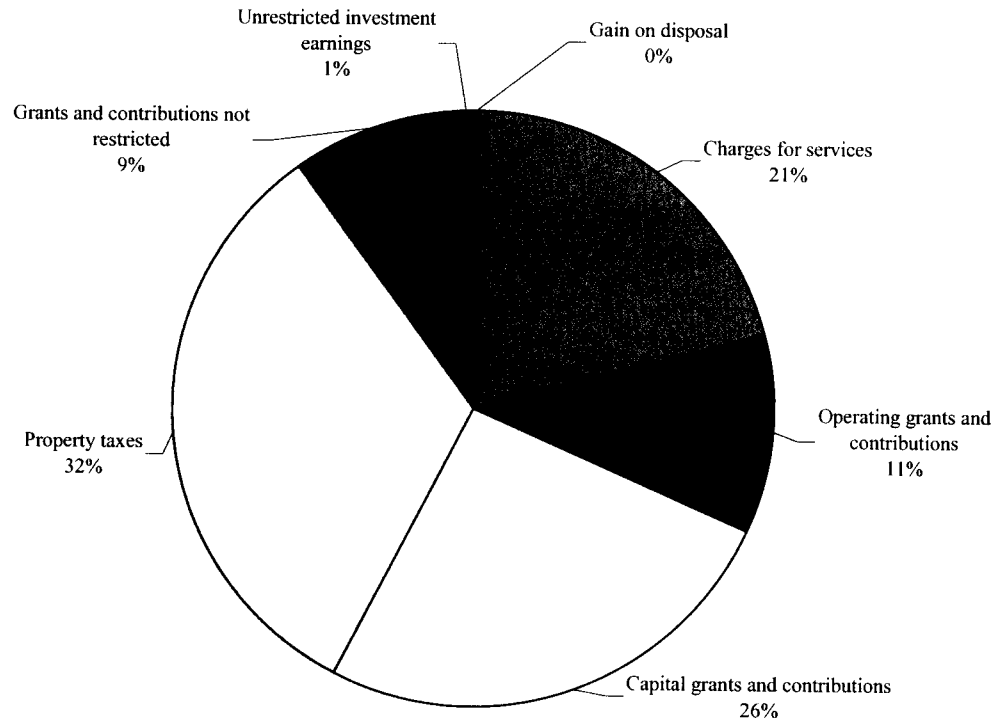
Governmental activities. Governmental activities increased the City's net assets by \$933,317. Key elements of this increase are as follows:

- Property tax revenue increased by \$114,293 (13.7 percent; from \$835,841 to \$950,134) during the year. This increase is the predominantly the result of significant and continuing residential growth in addition to increased taxable values.
- Grants and contributions not restricted to specific programs were composed of the sales tax revenues shared by the State of Michigan under the Revenue Sharing Act. The State's annual allocation to the City was reduced by \$12,458 (4.5 percent; from \$276,721 to 264,263).
- The City originally budgeted expenses to exceed revenues (by approximately nine percent), but actual revenues surpassed actual expenditures by approximately two percent.

Expenses and Program Revenues - Governmental Activities

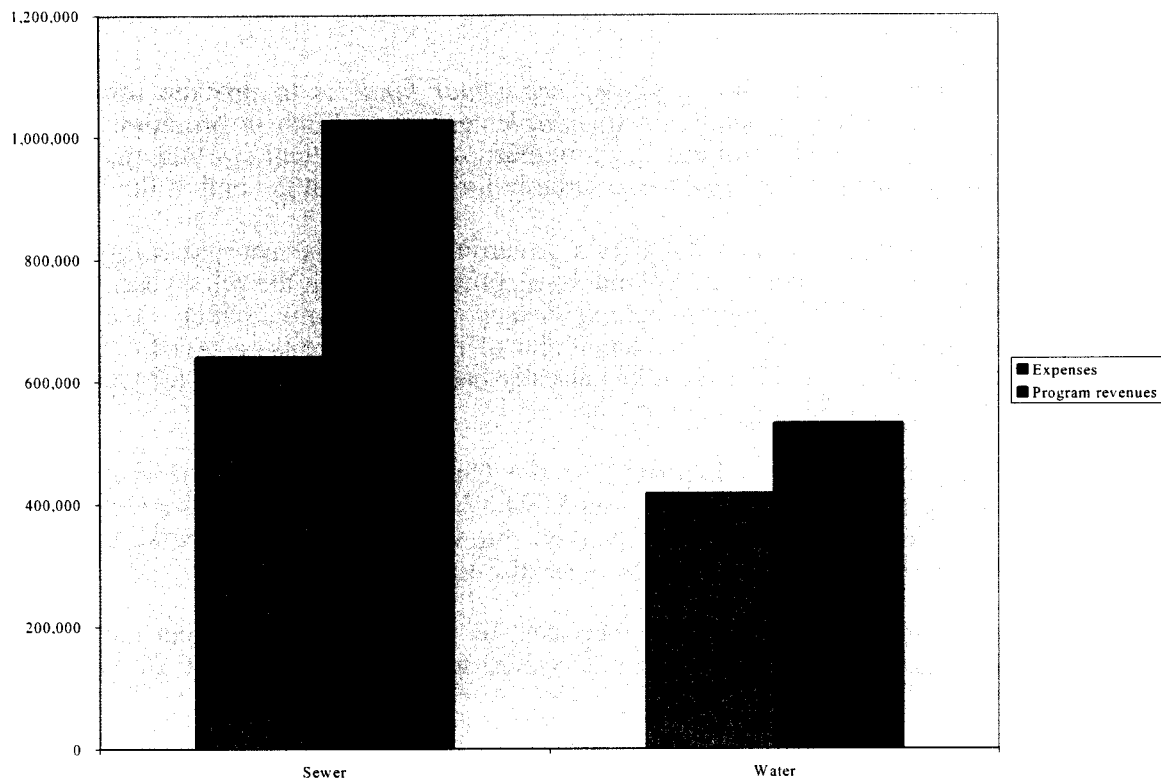


Revenues by Source - Governmental Activities

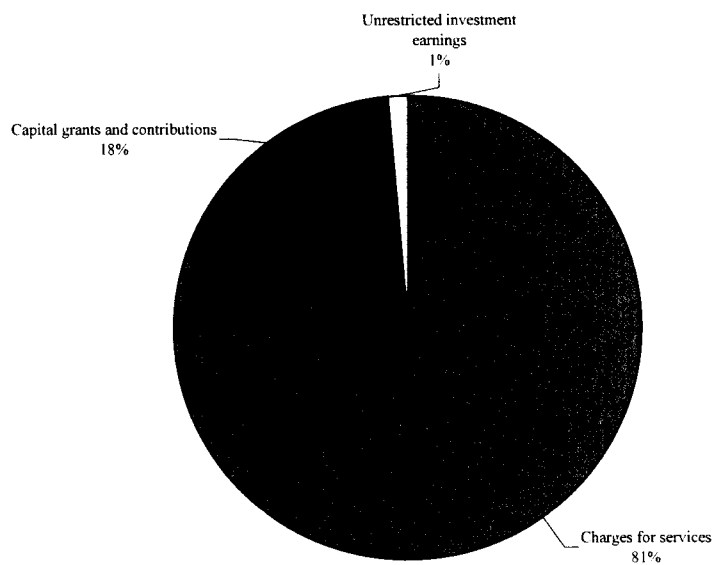


Business-type activities. Business-type activities increased the City's net assets by \$520,978, adding to the growth of the governmental activities and resulting in substantial growth in the net assets of the City. The most significant element of this increase was the charges for services (\$500,678) that is the result of changes in the City's rate structure for sewer services.

Expenses and Program Revenues - Business-type Activities



Revenues by Source - Business-type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,693,356, a decrease of \$456,068 in comparison with the prior year. Over half of this amount (56%, or \$948,320) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to pay for specific capital projects or for a variety of other restricted purposes.

The General Fund is the chief operating fund of the City. At the end of the fiscal year, the unreserved fund balance of the General Fund was \$594,876. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures: unreserved fund balance represents 30% of total General Fund expenditures.

The fund balance of the City's General Fund increased by \$98,461 during the current fiscal year. This is primarily attributable to contract proceeds related to the construction of a boardwalk in a City park.

The Major and Local Street Funds are the City's primary funds utilized for street construction and maintenance. At the conclusion of the fiscal year, the Major Street Fund had a fund balance of \$266,387 (a reduction of \$370,286 due to the N. Bridge Street construction project); the Local Street Fund, \$87,057 (a reduction of \$221,258 due to local street construction related to the N. Bridge Street construction project).

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the sanitary sewer and water funds at the end of the year amounted to \$2,278,778 and \$868,028, respectively. The sanitary sewer fund had an increase in net assets for the year of \$399,751 and the water fund had an increase in net assets for the year of \$121,210. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original and final amended budgets for expenditures were relatively minor and the adjustments were made as a part of the City's budget procedures to address changes in activity during the year.

Budget to actual comparisons for the City's general fund were generally favorable, although to varying degrees.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2004, amounted to \$9,164,505. This investment in capital assets includes land, buildings and system, improvements, equipment, and construction in progress. The total increase in the City's investment in capital assets for the fiscal year was \$1,510,793.

Major capital asset expenditures during the fiscal year included the following:

- The reconstruction of N. Bridge Street and Fairway Court.
- The construction of a new parking lot.
- The purchase of a new backhoe.

City's Capital Assets (net of depreciation)

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
	<u>2003</u>	<u>2003</u>	<u>2003</u>
Land	\$ 84,069	\$ 7,027	\$ 91,096
Buildings and improvements	575,546	-	575,546
Systems	-	5,396,695	5,396,695
Equipment	536,517	-	536,517
Construction in progress	<u>2,564,651</u>	<u>-</u>	<u>2,564,651</u>
Total net assets	<u>\$ 3,760,783</u>	<u>\$ 5,403,722</u>	<u>\$ 9,164,505</u>

Additional information on the City's capital assets can be found in note III-C on pages 37-38 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$7,141,972. Of this amount, \$2,150,000 represents bonds secured solely by specified revenue sources (i.e., revenue bonds), \$1,670,000 represents general obligation bonds, \$3,278,623 represents installment contracts, and \$43,349 represents accrued compensated absences.

City's Outstanding Debt
General Obligation and Revenue Bonds

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
	<u>2003</u>	<u>2003</u>	<u>2003</u>
Revenue/Special			
assessment bonds	\$ 1,380,000	\$ 770,000	\$ 2,150,000
General obligation bonds	1,392,310	277,690	1,670,000
Installment contracts	469,621	2,809,002	3,278,623
Accrued compensated absences	<u>43,349</u>	<u>-</u>	<u>43,349</u>
Total net debt	<u>\$ 3,285,280</u>	<u>\$ 3,856,692</u>	<u>\$ 7,141,972</u>

The City's total debt decreased by \$545,106 (7 percent) during the current fiscal year, with the addition of the Boardwalk Installment Contract for \$100,000 and debt payments being the primary change during the current fiscal year.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City is \$10,177,800, which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in note III-F on pages 40-44 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2004-05 fiscal year:

- The February 2003 unemployment rate for the Flint metropolitan area (the City is in the Flint area) was 9.8 percent, which is an increase from a rate of 8.5 percent a year ago. This was higher than the state's February 2003 average unemployment rate (seasonally-adjusted) of 6.9 percent and the national average rate of 5.9 percent.
- The City is comprised of primarily residential areas, with limited commercial and negligible industrial activity.
- Inflationary trends in the region compare similarly to national indices.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Clerk, P.O. Box 507, Linden, Michigan, 48451.

**BASIC
FINANCIAL STATEMENTS**

**GOVERNMENT-WIDE
FINANCIAL STATEMENTS**

CITY OF LINDEN
STATEMENT OF NET ASSETS
JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,451,115	\$ 974,841	\$ 2,425,956
Investments	91,841	360,210	452,051
Receivables	1,184,062	253,779	1,437,841
Internal balances	(16,275)	16,275	-
Prepaid items and other assets	16,814	-	16,814
Inventory	-	21,049	21,049
Restricted cash and cash equivalents	101,215	365,039	466,254
Nondepreciable capital assets	2,648,720	7,027	2,655,747
Depreciable capital assets, net	1,112,063	5,396,695	6,508,758
Total assets	6,589,555	7,394,915	13,984,470
Liabilities			
Accounts payable and accrued expenses	107,507	80,109	187,616
Accrued interest payable	35,301	47,106	82,407
Noncurrent liabilities:			
Due in one year	323,746	266,982	590,728
Due in more than one year	2,961,534	3,589,710	6,551,244
Total liabilities	3,428,088	3,983,907	7,411,995
Net assets			
Invested in capital assets, net of related debt	655,995	1,547,030	2,203,025
Restricted for:			
Debt service	493,669	74,328	567,997
Capital projects	-	173,599	173,599
Endowments:			
Nonexpendable	87,203	-	87,203
Other purposes	31,799	-	31,799
Unrestricted	1,892,801	1,616,051	3,508,852
Total net assets	\$ 3,161,467	\$ 3,411,008	\$ 6,572,475

The accompanying notes are an integral part of these financial statements.

**CITY OF LINDEN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	928,819	489,839	125,742	40,679
Public safety	594,177	42,377	1,218	-
Public works	176,687	20,425	-	-
General services:				
Highways and streets	83,693	-	190,116	683,382
Cemetery	82,588	56,424	-	-
Interest on long-term debt	132,887	-	-	37,250
Total governmental activities	<u>1,998,851</u>	<u>609,065</u>	<u>317,076</u>	<u>761,311</u>
Business-type activities:				
Sewer	641,109	745,151	-	281,424
Water	416,785	531,997	-	-
Total business-type activities	<u>1,057,894</u>	<u>1,277,148</u>	<u>-</u>	<u>281,424</u>
Total primary government	<u>\$ 3,056,745</u>	<u>\$ 1,886,213</u>	<u>\$ 317,076</u>	<u>\$ 1,042,735</u>

continued...

CITY OF LINDEN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets			
Net (expense) revenue	\$ (311,399)	\$ 500,678	\$ 189,279
General revenues:			
Property taxes, levied for general purposes	950,134	-	950,134
Grants and contributions not restricted to specific programs	264,263	-	264,263
Unrestricted investment earnings	29,793	20,300	50,093
Gain on disposal of capital assets	526	-	526
Total general revenues	1,244,716	20,300	1,265,016
Change in net assets	933,317	520,978	1,454,295
Net assets, beginning of year, as restated	2,228,150	2,890,030	5,118,180
Net assets, end of year	\$ 3,161,467	\$ 3,411,008	\$ 6,572,475

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

CITY OF LINDEN
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2004

	GENERAL	MAJOR STREET	LOCAL STREET
Assets			
Cash and cash equivalents	\$ 558,438	\$ 284,345	\$ 122,692
Investments	-	-	-
Receivables:			
Accounts	5,850	-	-
Special assessments - current	7,316	4,775	5,251
Special assessments - long-term	29,455	22,768	12,703
Due from other governmental units	98,852	-	-
Prepaid items	16,814	-	-
Restricted cash and cash equivalents	101,215	-	-
Total assets	\$ 817,940	\$ 311,888	\$ 140,646
Liabilities and fund equity			
Liabilities			
Accounts payable	\$ 10,971	\$ 22,682	\$ 40,886
Accrued payroll	29,005	51	-
Deposits	3,805	-	-
Deferred revenue	29,455	22,768	12,703
Total liabilities	73,236	45,501	53,589
Fund equity			
Fund balances:			
Reserved for retiree health care	-	-	-
Reserved for cemetery maintenance	-	-	-
Reserved for debt service	-	-	-
Reserved for public education grant	31,799	-	-
Reserved for Mill Building	101,215	-	-
Reserved for prepaid items	16,814	-	-
Unreserved, reported in:			
General Fund	514,059	-	-
Special Revenue Funds	-	221,324	87,057
Designated for subsequent years:			
General Fund	80,817	-	-
Special Revenue Funds	-	45,063	-
Total fund equity	744,704	266,387	87,057
Total liabilities and fund equity	\$ 817,940	\$ 311,888	\$ 140,646

The accompanying notes are an integral part of these financial statements.

N. BRIDGE '03 DEBT SERVICE	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ 40,737	\$ 329,808	\$ 1,336,020
-	91,841	91,841
-	-	5,850
37,435	95,387	150,164
301,675	562,595	929,196
-	-	98,852
-	-	16,814
-	-	101,215
<u>\$ 379,847</u>	<u>\$ 1,079,631</u>	<u>\$ 2,729,952</u>

\$ -	\$ -	\$ 74,539
-	-	29,056
-	-	3,805
301,675	562,595	929,196
<u>301,675</u>	<u>562,595</u>	<u>1,036,596</u>

-	14,336	14,336
-	87,203	87,203
78,172	415,497	493,669
-	-	31,799
-	-	101,215
-	-	16,814
-	-	514,059
-	-	308,381
-	-	80,817
-	-	45,063
<u>78,172</u>	<u>517,036</u>	<u>1,693,356</u>
<u>\$ 379,847</u>	<u>\$ 1,079,631</u>	<u>\$ 2,729,952</u>

CITY OF LINDEN
RECONCILIATION OF FUND BALANCES ON THE
BALANCE SHEET FOR GOVERNMENTAL FUNDS TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES ON
THE STATEMENT OF NET ASSETS
JUNE 30, 2004

Fund balances - total governmental funds	\$	1,693,356
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Long-term receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds.		929,196
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets		3,661,589
Deduct - accumulated depreciation		(425,708)

Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - accrued interest payable		(22,906)
Deduct - installment contracts payable		(237,143)
Deduct - bonds payable		(2,772,310)
Deduct - accumulated compensated absences		(43,349)

Elimination of Internal Service Fund activities		378,742
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Net assets of governmental activities	\$	3,161,467
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The accompanying notes are an integral part of these financial statements.

CITY OF LINDEN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND
BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	GENERAL	MAJOR STREET
Revenues		
Property taxes	\$ 950,134	\$ -
Special assessments	8,304	6,315
Licenses and permits	102,378	-
Intergovernmental		
Federal grants	32,375	671,148
State grants	368,220	139,819
Charges for services		
Cemetery	56,384	-
Other	266,764	-
Fines and forfeits	22,101	-
Interest	11,788	5,532
Contributions	23,003	-
Miscellaneous	161,438	-
Total revenues	2,002,889	822,814
Expenditures		
General government	1,082,271	-
Cemetery	79,774	-
Public safety		
Police	477,451	-
Fire	116,030	-
Public works	175,630	-
Highways and streets	-	1,074,322
Debt service	28,057	85,028
Total expenditures	1,959,213	1,159,350
Revenues over (under) expenditures	43,676	(336,536)
Other financing sources (uses)		
Installment contract proceeds	100,000	-
Transfers in	610	-
Transfers (out)	(45,825)	(33,750)
Total other financing sources (uses)	54,785	(33,750)
Net change in fund balances	98,461	(370,286)
Fund balances, beginning of year	646,243	636,673
Fund balances, end of year	\$ 744,704	\$ 266,387

The accompanying notes are an integral part of these financial statements.

LOCAL STREET	N. BRIDGE '03 DEBT SERVICE	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$ -	\$ -	\$ -	\$ 950,134
5,919	47,920	134,833	203,291
-	-	-	102,378
-	-	-	703,523
50,297	-	-	558,336
-	-	-	56,384
-	-	-	266,764
-	-	-	22,101
2,580	844	7,809	28,553
-	-	-	23,003
-	-	-	161,438
58,796	48,764	142,642	3,075,905
-	-	-	1,082,271
-	-	-	79,774
-	-	-	477,451
-	-	-	116,030
-	-	-	175,630
284,350	-	-	1,358,672
59,454	10,700	158,906	342,145
343,804	10,700	158,906	3,631,973
(285,008)	38,064	(16,264)	(556,068)
-	-	-	100,000
63,750	-	15,825	80,185
-	-	(610)	(80,185)
63,750	-	15,215	100,000
(221,258)	38,064	(1,049)	(456,068)
308,315	40,108	518,085	2,149,424
\$ 87,057	\$ 78,172	\$ 517,036	\$ 1,693,356

CITY OF LINDEN
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Net change in fund balances - total governmental funds	\$	(456,068)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds but rather are deferred to future fiscal years.

Subtract - current year payments on special assessments receivable		(145,503)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital additions		1,480,315
Deduct - depreciation expense		(51,129)

Bond and loan proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds and loans increases long-term liabilities in the statement of net assets. Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Deduct - proceeds on installment loan		(100,000)
Add - principal payments on long-term liabilities		207,857
Add - changes in accrued compensated absences		(5,907)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds

Add - net decrease in accrued interest		1,401
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Elimination of Internal Service Fund activities		2,351
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Change in net assets of governmental activities	\$	933,317
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The accompanying notes are an integral part of these financial statements.

**CITY OF LINDEN
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2004**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	OVER (UNDER) BUDGET
Revenues				
Property taxes	\$ 954,600	\$ 954,600	\$ 950,134	\$ (4,466)
Special assessments	7,630	7,630	8,304	674
Licenses and permits	79,890	79,890	102,378	22,488
Intergovernmental:				
Federal grants	18,500	18,500	32,375	13,875
State grants	394,650	394,650	368,220	(26,430)
Charges for services				
Cemetery	53,000	53,000	56,384	3,384
Other	258,025	258,025	266,764	8,739
Fines and forfeits	14,000	14,000	22,101	8,101
Interest	13,000	13,000	11,788	(1,212)
Contributions	39,500	39,500	23,003	(16,497)
Miscellaneous	9,800	160,800	161,438	638
Total revenues	1,842,595	1,993,595	2,002,889	9,294
Expenditures				
General government	1,176,510	1,229,741	1,082,271	(147,470)
Cemetery	80,620	93,220	79,774	(13,446)
Public safety:				
Police	429,450	483,869	477,451	(6,418)
Fire	125,400	125,400	116,030	(9,370)
Department of Public Works	165,700	181,700	175,630	(6,070)
Debt service:				
Principal	22,858	22,858	22,857	(1)
Interest	7,200	7,200	5,200	(2,000)
Total expenditures	2,007,738	2,143,988	1,959,213	(184,775)
Revenues over (under) expenditures	(165,143)	(150,393)	43,676	194,069
Other financing sources (uses)				
Installment contract proceeds	100,000	100,000	100,000	-
Transfer in	1,000	1,000	610	(390)
Transfer (out)	(45,150)	(45,150)	(45,825)	(675)
Total other financing sources (uses)	55,850	55,850	54,785	(1,065)
Net change in fund balances	(109,293)	(94,543)	98,461	193,004
Fund balances, beginning of year	646,243	646,243	646,243	-
Fund balances, end of year	\$ 536,950	\$ 551,700	\$ 744,704	\$193,004

**CITY OF LINDEN
MAJOR STREET FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2004**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	OVER (UNDER) BUDGET
Revenues				
Special assessments	\$ 5,604	\$ 5,604	\$ 6,315	\$ 711
Intergovernmental:				
Federal grants	-	-	671,148	671,148
State grants	125,000	125,000	139,819	14,819
Interest	5,000	5,000	5,532	532
Total revenues	135,604	135,604	822,814	687,210
Expenditures				
Highways and streets	498,000	573,900	1,074,322	500,422
Debt service:				
Principal	50,000	50,000	50,000	-
Interest	35,715	35,715	34,120	(1,595)
Paying agent fees	1,100	1,100	908	(192)
Total expenditures	584,815	660,715	1,159,350	498,635
Revenues over (under) expenditures	(449,211)	(525,111)	(336,536)	188,575
Other financing (uses)				
Transfer (out)	-	(33,750)	(33,750)	-
Net change in fund balances	(449,211)	(558,861)	(370,286)	188,575
Fund balances, beginning of year	636,673	636,673	636,673	-
Fund balances, end of year	\$ 187,462	\$ 77,812	\$ 266,387	\$188,575

**CITY OF LINDEN
LOCAL STREET FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2004**

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	OVER (UNDER) BUDGET
Revenues				
Special assessments	\$ 8,416	\$ 8,416	\$ 5,919	\$ (2,497)
Intergovernmental:				
State grants	44,500	44,500	50,297	5,797
Interest	4,500	4,500	2,580	(1,920)
Total revenues	57,416	57,416	58,796	1,380
Expenditures				
Highways and streets	315,675	315,675	284,350	(31,325)
Debt service:				
Principal	30,000	30,000	30,000	-
Interest	30,505	30,505	29,096	(1,409)
Paying agent fees	300	300	358	58
Total expenditures	376,480	376,480	343,804	(32,676)
Revenues over (under) expenditures	(319,064)	(319,064)	(285,008)	34,056
Other financing sources				
Transfer in	30,000	63,750	63,750	-
Net change in fund balances	(289,064)	(255,314)	(221,258)	34,056
Fund balances, beginning of year	308,315	308,315	308,315	-
Fund balances, end of year	\$ 19,251	\$ 53,001	\$ 87,057	\$34,056

CITY OF LINDEN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2004

	ENTERPRISE FUNDS			INTERNAL SERVICE FUND
	SEWER	WATER	TOTAL	
Assets				
Current assets				
Cash and cash equivalents	\$ 740,422	\$ 234,419	\$ 974,841	\$ 115,095
Cash with agent	154	-	154	-
Investments	360,210	-	360,210	-
Accounts receivable	49,638	123,249	172,887	-
Special assessments receivable	38,855	42,037	80,892	-
Restricted cash and cash equivalents	173,599	191,286	364,885	-
Inventory	-	21,049	21,049	-
Total current assets	1,362,878	612,040	1,974,918	115,095
Capital assets				
Land	-	7,027	7,027	-
Sewer system	4,075,528	-	4,075,528	-
Water system	-	2,840,689	2,840,689	-
Equipment	-	-	-	976,348
Less accumulated depreciation	(136,429)	(1,383,093)	(1,519,522)	(451,446)
Total capital assets	3,939,099	1,464,623	5,403,722	524,902
Total assets	5,301,977	2,076,663	7,378,640	639,997
Liabilities				
Current liabilities				
Accounts payable	1,587	77,889	79,476	-
Accrued payroll	133	500	633	107
Accrued interest payable	38,878	8,228	47,106	12,395
Current portion of debt	150,024	116,958	266,982	35,314
Total current liabilities	190,622	203,575	394,197	47,816
Long-term liabilities				
Long-term portion of debt	2,658,978	930,732	3,589,710	197,164
Total long-term liabilities	2,849,600	1,134,307	3,983,907	244,980
Net assets				
Invested in capital assets, net of related debt	1,130,097	416,933	1,547,030	292,424
Restricted for debt service	-	74,328	74,328	-
Restricted for capital improvement	173,599	-	173,599	-
Unrestricted	1,148,681	451,095	1,599,776	102,593
Total net assets	\$ 2,452,377	\$ 942,356	\$ 3,394,733	\$ 395,017

CITY OF LINDEN
RECONCILIATION OF THE PROPRIETARY FUNDS STATEMENT OF
NET ASSETS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2004

Net assets - total enterprise funds	\$ 3,394,733
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Amounts reported for business-type activities in the statement of net assets are different because:

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in business-type activities.

Add: net assets of business-type activities accounted for in internal service funds	<u>16,275</u>
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Net assets of business-type activities	<u><u>\$ 3,411,008</u></u>
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CITY OF LINDEN
STATEMENT OF REVENUE, EXPENSES AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	ENTERPRISE FUNDS			INTERNAL SERVICE FUND
	SEWER	WATER	TOTAL	
Operating revenues				
Charges for services	\$ 724,210	\$ 226,142	\$ 950,352	\$ 138,927
Charges for services for debt retirement	-	-	-	-
Penalties	9,805	9,805	19,610	-
Tap fees	301,670	296,050	597,720	-
Total operating revenues	1,035,685	531,997	1,567,682	138,927
Operating expenses				
Wages	6,925	44,764	51,689	11,008
Fringe benefits	459	4,188	4,647	-
Administration fees	31,730	51,195	82,925	-
Operating supplies	700	34,574	35,274	9,127
Contracted services - sewer treatment	393,016	-	393,016	-
Professional fees	2,737	1,943	4,680	-
Depreciation	24,179	122,317	146,496	84,787
Insurance	-	-	-	4,592
Utilities	2,714	14,774	17,488	-
Repairs and maintenance	9,265	84,172	93,437	15,804
Equipment rental	663	3,136	3,799	-
Miscellaneous	3,509	3,178	6,687	-
Total operating expenses	475,897	364,241	840,138	125,318
Operating income	559,788	167,756	727,544	13,609
Nonoperating revenues (expenses)				
Reduction in capital contributions	(17,119)	-	(17,119)	-
Interest earnings	22,297	6,012	28,309	1,240
Gain on disposal of capital assets	-	-	-	526
Interest expense	(165,215)	(52,558)	(217,773)	(13,007)
Total nonoperating revenues (expenses)	(160,037)	(46,546)	(206,583)	(11,241)
Change in net assets	399,751	121,210	520,961	2,368
Net assets, beginning of year - as restated	2,052,626	821,146	2,873,772	392,649
Net assets, end of year	\$ 2,452,377	\$ 942,356	\$ 3,394,733	\$ 395,017

**CITY OF LINDEN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES
AND CHANGE IN FUND NET ASSETS OF ENTERPRISE FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004**

Change in net assets - total enterprise funds	\$ 520,961
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Amounts reported for business-type activities in the statement of activities are different because:

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with business-type activities

Add: net operating gain from business-type activities accounted for in internal service funds	<u>17</u>
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Change in net assets of business-type activities	<u><u>\$ 520,978</u></u>
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**CITY OF LINDEN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2004**

	ENTERPRISE FUNDS			INTERNAL SERVICE FUNDS
	SEWER	WATER	TOTAL	
Cash flows from operating activities:				
Cash received from customers	\$ 986,574	\$ 452,655	\$ 1,439,229	\$ -
Cash received from interfund services provided	-	-	-	138,927
Cash payments to suppliers for goods and services	(492,152)	(136,522)	(628,674)	(29,523)
Cash payments to employees for services	(6,792)	(44,264)	(51,056)	(10,901)
Cash payments for interfund services	(663)	(3,136)	(3,799)	-
Net cash provided by operating activities	486,967	268,733	755,700	98,503
Cash flows from capital and related financing activities:				
Proceeds from disposal of capital assets	-	-	-	526
Reduction in capital contributions	(17,119)	-	(17,119)	-
Acquisition of capital assets	(12,764)	(275,720)	(288,484)	(24,406)
Principal paid on long-term debt	(314,756)	(95,000)	(409,756)	(33,401)
Interest paid on long-term debt	(167,505)	(53,105)	(220,610)	(14,871)
Net cash (used) by capital and related financing activities	(512,144)	(423,825)	(935,969)	(72,152)
Cash flows from investing activities:				
Interest earned on investments	22,297	6,012	28,309	1,240
Purchase of investments	(2,613)	-	(2,613)	-
Net cash provided by investing activities	19,684	6,012	25,696	1,240
Net increase (decrease) in cash and cash equivalents	(5,493)	(149,080)	(154,573)	27,591
Cash and cash equivalents, beginning of year	919,668	574,785	1,494,453	87,504
Cash and cash equivalents, end of year	\$ 914,175	\$ 425,705	\$ 1,339,880	\$ 115,095
Operating income	\$ 559,788	\$ 167,756	\$ 727,544	\$ 13,609
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	24,179	122,317	146,496	84,787
(Increase) decrease in assets:				
Receivables	(49,111)	(79,342)	(128,453)	-
Inventory	-	1,096	1,096	-
Increase (decrease) in liabilities:				
Accounts payable	(48,022)	56,406	8,384	-
Accrued payroll	133	500	633	107
Net cash provided by operating activities	\$ 486,967	\$ 268,733	\$ 755,700	\$ 98,503

NOTES TO FINANCIAL STATEMENTS

CITY OF LINDEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

The *City of Linden* (the “City”) is a municipal corporation governed by an elected Council. The City has followed the guidelines of the Governmental Accounting Standards Board’s Statement No. 14 and has determined no entities should be consolidated into its financial statements as component units. The criteria for including a component unit includes significant operational or financial relationships with the City. Therefore, the reporting entity consists of the primary government financial statements only.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

CITY OF LINDEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *major street fund* accounts for revenue provided for the purposes of maintenance of major streets within the City.

The *local street fund* accounts for revenue provided for the purposes of maintenance of local streets within the City.

The *n. bridge '03 debt service fund* accounts for the special assessments and related debt service for construction on N. Bridge Street.

CITY OF LINDEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

The City reports the following major proprietary funds:

The *sewer fund* accounts for the activities of the government's sewage disposal and treatment system.

The *water fund* accounts for the activities of the government's water distribution and treatment system.

Additionally, the City reports the following fund types:

Internal service funds account for fringe benefit and fleet management services provided to other departments or agencies of the government on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and of the City's internal service fund are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover cost of connection new customers to the system. Operating expenses for enterprise funds and the internal service fund include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF LINDEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

D. Assets, liabilities and net assets or equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. Restricted assets

In accordance with revenue bond and installment contract requirements, resources are set aside in the Water and Sewer Enterprise Funds to meet principal and interest repayment requirements. Because these resources are restricted or limited as to their use, they are classified as restricted assets on the balance sheet.

4. Inventory

Inventory is valued at the lower of cost or market in business-type activities, using the first-in/first-out (FIFO) method.

5. Capital assets

Capital assets, which include property, plant, equipment and water and sewer systems, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets

CITY OF LINDEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	15-30
Water and sewer system infrastructure	20-100
Equipment	5-10

6. Compensated absences

Employees earn vacation and sick leave based on years of service. Vacation days are accrued annually on the employee's anniversary. Upon termination, employees receive payment equal to 85% of their unused sick leave and 100% of their unused vacation hours. The vacation hours accrued at the June 30 year end are valued using each employees current pay rate. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

CITY OF LINDEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Deferred revenues

Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

9. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

10. Property taxes

Property taxes attach as an enforceable lien on property as of December 31 each year. City taxes are levied on the following July 1, and are due on September 15 with the final collection date of February 28 before they are added to the County tax rolls. City property tax revenues are recognized as revenues in the fiscal year levied to the extent that they are measurable and available.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the General and Special Revenue Funds.
2. Public hearings are conducted to obtain taxpayer comments.

CITY OF LINDEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

3. On or before the first regular council meeting in May, by resolution, the budget is legally enacted at the activity level for the General and Special Revenue Funds for the ensuing fiscal year in accordance with Public Act 621 of the State of Michigan.
4. The Council is authorized to transfer budgeted amounts from one department or fund to another.
5. Formal budgetary integration is employed as a management control device during the year for all budgetary funds. Also, all budgets are adopted on a basis consistent with generally accepted accounting principles.
6. Budget appropriations not encumbered lapse at the end of the fiscal year.
7. The original budget was amended during the year in compliance with the City Charter and applicable State laws. The budget to actual expenditures in the financial statements represent the final budgeted expenditures as amended by the City and are presented at the activity level.
8. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed in the governmental funds.

B. Excess of expenditures over appropriations

The following Special Revenue Fund expenditures exceeded budgeted appropriations at the activity level, which is the City's level of budgetary control, for the year ended June 30, 2004:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Variance (Unfavorable)</u>
Special Revenue Funds:			
Major Streets – Highways and streets	\$ 573,900	\$ 1,074,322	\$(500,422)

The expenditures over appropriations in the Major Streets Fund – Highways and Streets activity is the result of the City recognizing expenditures of \$671,148 in federal grant funds that were expended on their behalf through the Michigan Department of Transportation. The grant award is for reconstruction of major streets within the City of Linden but the Michigan Department of Transportation receives the funds because the City has entered into an administrative agreement with the State.

CITY OF LINDEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Government-wide Financial Statement Captions:

Cash and cash equivalents	\$2,425,956
Investments	452,051
Restricted cash and cash equivalents	<u>466,254</u>
Total	<u>\$3,344,261</u>

The City's cash and investments at June 30, 2004, are classified for disclosure purposes under the following classifications:

Deposits	\$ 2,892,210
Investments	<u>452,051</u>
Total	<u>\$ 3,344,261</u>

Deposits

Deposits are carried at cost. Deposits of the City are at five financial institutions in the name of the City.

As of June 30, 2004, the carrying amount of the City's deposits was \$2,892,210 and the bank balance of those deposits were classified as to risk as follows:

	<u>Bank Balance</u>
Insured (FDIC)	\$ 670,906
Uninsured	<u>2,180,268</u>
Total	<u>\$ 2,851,174</u>

The City evaluates each financial institution it deposits City funds with and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

CITY OF LINDEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Investments

The City is authorized by City Council and Michigan Public Act 20, as amended, to invest surplus funds in the following:

- ◆ Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- ◆ Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- ◆ Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- ◆ In banker's acceptances of United States banks.
- ◆ Obligations of the State of Michigan and its political subdivisions that, at the time of purchase, are rated as investment grade by at least one standard rating service.
- ◆ Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- ◆ External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The City's investments are categorized below to give an indication of the level of risk assumed by the entity at June 30, 2004. Risk Category 1 includes those investments that are insured, registered or held by the City or the City's agent in the City's name. Risk Categories 2 and 3 include investments that are neither insured nor registered.

Category 2 includes investments that are held by the counterparty's trust department (or agent) in the City's name. Category 3 includes investments held by the counterparty or the counterparty's trust department (or agent) but not in the City's name.

CITY OF LINDEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

	<u>Carrying Amount</u>	<u>Fair Value</u>
Uncategorized as to risk:		
Municipal investment funds	<u>\$ 452,051</u>	<u>\$ 452,051</u>

The above investments are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in these funds comply with the investment authority noted above.

B. Receivables

Receivables as of year end for the City's governmental and business-type activities in the aggregate, are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Receivables:		
Accounts	\$ 5,850	\$ 172,887
Special assessments – current	150,164	80,892
Intergovernmental	929,196	-
Special assessments – long term	<u>98,852</u>	<u>-</u>
Total receivables	<u>\$1,184,062</u>	<u>\$ 253,779</u>

CITY OF LINDEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

C. Capital assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 84,069	\$ -	\$ -	\$ 84,069
Construction in progress	<u>1,381,716</u>	<u>1,182,935</u>	<u>-</u>	<u>2,564,651</u>
Total capital assets not being depreciated	<u>1,465,785</u>	<u>1,182,935</u>	<u>-</u>	<u>2,648,720</u>
Capital assets being depreciated:				
Buildings and improvements	696,131	297,380	-	993,511
Equipment	<u>975,300</u>	<u>24,406</u>	<u>(4,000)</u>	<u>995,706</u>
Total capital assets being depreciated	<u>1,671,431</u>	<u>321,786</u>	<u>(4,000)</u>	<u>1,989,217</u>
Less accumulated depreciation				
Buildings and improvements	(369,708)	(48,257)	-	(417,965)
Equipment	<u>(375,530)</u>	<u>(87,659)</u>	<u>4,000</u>	<u>(459,189)</u>
Total accumulated depreciation	<u>(745,238)</u>	<u>(135,916)</u>	<u>4,000</u>	<u>(877,154)</u>
Total capital assets being depreciated, net	<u>926,193</u>	<u>185,870</u>	<u>-</u>	<u>1,112,063</u>
Governmental activities capital assets, net	<u>\$ 2,391,978</u>	<u>\$ 1,368,805</u>	<u>\$ -</u>	<u>\$ 3,760,783</u>

CITY OF LINDEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Business-type activities				
Capital assets not being depreciated:				
Land	\$ 7,027	\$ -	\$ -	\$ 7,027
Construction in progress	<u>36,982</u>	<u>-</u>	<u>(36,982)</u>	<u>-</u>
Total capital assets not being depreciated	<u>44,009</u>	<u>-</u>	<u>(36,982)</u>	<u>7,027</u>
Capital assets being depreciated:				
Sewer system	4,025,783	49,746	-	4,075,529
Water system	<u>2,564,968</u>	<u>275,720</u>	<u>-</u>	<u>2,840,688</u>
Total capital assets being depreciated	<u>6,590,751</u>	<u>325,466</u>	<u>-</u>	<u>6,916,217</u>
Less accumulated depreciation				
Sewer system	(112,250)	(24,179)	-	(136,429)
Water system	<u>(1,260,776)</u>	<u>(122,317)</u>	<u>-</u>	<u>(1,383,093)</u>
Total accumulated depreciation	<u>(1,373,026)</u>	<u>(146,496)</u>	<u>-</u>	<u>(1,519,522)</u>
Total capital assets being depreciated, net	<u>5,217,725</u>	<u>178,970</u>	<u>-</u>	<u>5,396,695</u>
Business-type activities capital assets, net	<u>\$ 5,261,734</u>	<u>\$ 178,970</u>	<u>\$ (36,982)</u>	<u>\$ 5,403,722</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 46,140
Public safety	1,000
Public works	1,118
Cemetery	2,871
Internal service funds	<u>84,787</u>

Total depreciation expense – governmental activities **\$ 135,916**

Business-type activities:

Sewer	\$ 24,179
Water	<u>122,317</u>

Total depreciation expense – business-type activities **\$ 146,496**

CITY OF LINDEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

D. Payables

Accounts payable and accrued expenses as of year end for the City's governmental and business-type activities in the aggregate, are as follows:

	Governmental Activities	Business-type Activities
Accounts payable	\$ 74,539	\$ 79,476
Accrued payroll	29,163	633
Deposits	<u>3,805</u>	<u>-</u>
Total payables	<u>\$ 107,507</u>	<u>\$ 80,109</u>

E. Interfund transfers

Following is a summary of transfers between funds of the City for the fiscal year 2004. These transfers are part of the normal budgetary process and are necessary to provide resources in appropriate funds as designated by the City Council.

Interfund transfers:

Transfer to:	Transfer from			Total
	<u>General</u>	<u>Major Street</u>	<u>Cemetery Trust</u>	
General fund	\$ -	\$ -	\$ 610	\$ 610
Local Street	30,000	33,750	-	63,750
Employee Health Care	5,000	-	-	5,000
N. Bridge Debt Service	7,000	-	-	7,000
Cemetery Trust	<u>3,825</u>	<u>-</u>	<u>-</u>	<u>3,825</u>
Total	<u>\$ 45,825</u>	<u>\$ 33,750</u>	<u>\$ 610</u>	<u>\$ 80,185</u>

The interfund transfers from the General Fund to the Employee Health Care and N. Bridge Debt Service Funds are to cover expenditures related to General Fund activities.

The interfund transfers from General and Major Street Funds to Local Street is to provide the required local match on various projects under ACT 51 and to cover expenditures when there was not sufficient funds available in Local Street.

CITY OF LINDEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

The interfund transfer from the Cemetery Trust to the General Fund is to use the interest that was earned on the principal for current cemetery maintenance expenditures as allowed by the trust agreement.

The interfund transfer from the General Fund to the Cemetery Trust is to add the portion of lot sales that is required to be added to the principal in the Trust for cemetery maintenance.

F. Long-term debt

Outstanding Debt

The following is a summary of the debt outstanding of the City of Linden as of June 30, 2004, and the changes therein:

	<u>Principal Balance July 1, 2003</u>	<u>Additions</u>	<u>(Deductions)</u>	<u>Principal Balance June 30, 2004</u>	<u>Due Within One Year</u>
Governmental activities					
Installment loans:					
2003 East Street Drain, with an interest rate of 3.25%, due semi-annually through February 2010	\$ 160,000	\$ -	\$ (22,857)	\$ 137,143	\$ 22,857
Boardwalk Trail, with an interest rate of 2.44%, due annually through October 2006	-	100,000	-	100,000	32,533
Saber Pumper Fire Truck, with an interest rate of 7.67%, due annually through July 2007	126,453	-	(22,455)	103,998	23,791
Pierce Pumper Fire Truck, with an interest rate of 5.27%, due annually through July 2012	<u>139,426</u>	<u>-</u>	<u>(10,946)</u>	<u>128,480</u>	<u>11,523</u>
Total Installment Loans	<u>425,879</u>	<u>100,000</u>	<u>(56,258)</u>	<u>469,621</u>	<u>90,704</u>
General Obligation Bonds:					
1991 Transportation Bonds, with interest rates of 6.5-6.9%, due semi-annually through August 2005	45,000	-	(15,000)	30,000	15,000
1997 Transportation Bonds, with interest rates of 4.7-5.7%, due semi-annually through November 2011	155,000	-	(15,000)	140,000	15,000

CITY OF LINDEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

	<u>Principal Balance July 1, 2003</u>	<u>Additions</u>	<u>(Deductions)</u>	<u>Principal Balance June 30, 2004</u>	<u>Due Within One Year</u>
2000 General Obligation Bonds, with interest rates of 5.0-6.0%, due semi-annually through November 2014	\$ 330,000	\$ -	\$ (20,000)	\$ 310,000	\$ 20,000
2002 General Obligation Bonds, with interest rates of 3.45-4.85%, due semi-annually through May 2017	565,000	-	(30,000)	535,000	30,000
2003 General Obligation Bonds, with interest rates of 2.0-4.2%, due semi-annually through November 2017	<u>377,310</u>	<u>-</u>	<u>-</u>	<u>377,310</u>	<u>23,042</u>
Total General Obligation Bonds	<u>1,472,310</u>	<u>-</u>	<u>(80,000)</u>	<u>1,392,310</u>	<u>103,042</u>
Special Assessment Bonds (with City obligation):					
1991 Special Assessment Bonds, with interest rates of 6.0-7.2%, due semi-annually through November 2005	30,000	-	(10,000)	20,000	10,000
1992 Special Assessment Bonds, with interest rates of 6.0-6.5%, due semi-annually through November 2006	60,000	-	(15,000)	45,000	15,000
1996 Special Assessment Bonds, with interest rates of 4.875-5.9%, due semi-annually through November 2011	135,000	-	(15,000)	120,000	15,000
2000-A Special Assessment Bonds, with interest rates of 5.0-6.0%, due semi-annually through November 2014	235,000	-	(15,000)	220,000	20,000
2001 Special Assessment Bonds, with interest rates of 3.8-5.25%, due semi-annually through November 2015	295,000	-	(20,000)	275,000	20,000
2002 Special Assessment Bonds, with interest rates of 3.5-4.8%, due semi-annually through November 2016	355,000	-	(30,000)	325,000	25,000
2003 Special Assessment Bonds, with interest rates of 2.0-4.2%, due semi-annually through November 2017	<u>375,000</u>	<u>-</u>	<u>-</u>	<u>375,000</u>	<u>25,000</u>
Total Special Assessment Bonds	<u>1,485,000</u>	<u>-</u>	<u>(105,000)</u>	<u>1,380,000</u>	<u>130,000</u>

CITY OF LINDEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

	<u>Principal Balance July 1, 2003</u>	<u>Additions</u>	<u>(Deductions)</u>	<u>Principal Balance June 30, 2004</u>	<u>Due Within One Year</u>
Accrued compensated absences	\$ 37,441	\$ 5,908	\$ -	\$ 43,349	\$ -
Total governmental activities	\$ 3,420,630	\$ 105,908	\$ (241,258)	\$ 3,285,280	\$ 323,746

The annual requirements to service all debt outstanding in the governmental activities as of June 30, 2004, except for accrued compensated absences, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 323,746	\$ 138,534
2006	326,562	124,781
2007	314,515	111,468
2008	267,636	98,872
2009	245,050	87,125
2010-2014	1,182,692	269,839
2015-2018	<u>581,730</u>	<u>44,911</u>
	<u>\$ 3,241,931</u>	<u>\$ 875,530</u>

For the governmental activities, accrued compensated absences are generally liquidated by the general fund.

	<u>Principal Balance @ July 1, 2003</u>	<u>Additions</u>	<u>(Deductions)</u>	<u>Principal Balance @ June 30, 2004</u>	<u>Due Within One Year</u>
Business-type activities					
Installment Contracts:					
1970 Sewage Disposal System No. 3, with interest rates of 6.0-7.5%, due semi- annually through May 2008	\$ 195,000	\$ -	\$ (195,000)	\$ -	\$ -
1998 A Sewage Disposal System No. 3, with an interest rate of 5.7%, due semi- annually through April 2016	2,049,012	-	(94,752)	1,954,260	125,020

CITY OF LINDEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

	<u>Principal Balance @ July 1, 2003</u>	<u>Additions</u>	<u>(Deductions)</u>	<u>Principal Balance @ June 30, 2004</u>	<u>Due Within One Year</u>
1998 Sewage Disposal District No. 3, with an interest rate of 5.01%, due semi- annually through April 2019	\$ 879,746	\$ -	\$ (25,004)	\$ 854,742	\$ 25,004
Total Installment Contracts	<u>3,123,758</u>	<u>-</u>	<u>(314,756)</u>	<u>2,809,002</u>	<u>150,024</u>
Revenue Bonds:					
1997 Water Supply System, with interest rates of 4.5-5.7%, due semi- annually through November 2007	125,000	-	(25,000)	100,000	25,000
1998 Water Supply System, with interest rates of 4.5-5.2%, due semi- annually through November 2005	90,000	-	(30,000)	60,000	30,000
2000 Water Supply System, with interest rates of 5.0-6.0%, due semi- annually through May 2015	380,000	-	(20,000)	360,000	25,000
2002 Water Supply System, with interest rates of 3.8-5.0%, due semi- annually through May 2013	<u>270,000</u>	<u>-</u>	<u>(20,000)</u>	<u>250,000</u>	<u>20,000</u>
Total Revenue Bonds	<u>865,000</u>	<u>-</u>	<u>(95,000)</u>	<u>770,000</u>	<u>100,000</u>
General Obligation Bonds					
2003 General Obligation Bonds, with interest rates of 2.0-4.2%, due semi- annually through November 2017	<u>277,690</u>	<u>-</u>	<u>-</u>	<u>277,690</u>	<u>16,958</u>
Total business-type activities	<u>\$ 4,266,448</u>	<u>\$ -</u>	<u>\$ (409,756)</u>	<u>\$ 3,856,692</u>	<u>\$ 266,982</u>

CITY OF LINDEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Future long-term debt service requirements on business-type activities indebtedness as of June 30, 2004, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 266,982	\$ 196,869
2006	276,852	181,569
2007	254,748	168,715
2008	268,302	156,129
2009	253,172	143,121
2010-2014	1,521,252	498,491
2015-2019	<u>1,015,384</u>	<u>123,978</u>
	<u>\$ 3,856,692</u>	<u>\$1,468,872</u>

IV. Other information

A. Risk management

The City is exposed to various risks of loss related to torts; theft of, damage to, and distribution of assets; errors and omissions; injuries to employees and natural disasters. The City carries commercial insurance to cover any potential claims associated with these risks and has had no claims that exceeded the insurance coverage during the past three years.

B. Contingencies and commitments

The City is a defendant in various lawsuits. It is the opinion of City management and its counsel that the outcome of the lawsuits now pending will not materially affect the operations or the financial position of the City.

Under the terms of certain federal grants, periodic audits are required and certain costs may be questioned as not representing appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believe disallowances, if any, would be minimal.

CITY OF LINDEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

C. Defined contribution benefit plan

The City of Linden Group Pension Plan is a defined contribution pension plan established by the City Council and administered by ICMA, a third party, to provide benefits at retirement to eligible employees. Substantially all full time employees are eligible to participate in the plan. At June 30, 2004, all 12 eligible persons were plan members.

Employees are not required to contribute to the plan. The City is required to contribute 7% of the employee's annual salary.

Contributions made by the City vest 20% per year through year five at which time the employee is fully vested. An employee who leaves the employment of the City is entitled to his or her contributions and the City's contributions, plus interest earned.

Plan provisions and contribution requirements are established and may be amended by the City Council.

During the year, the City's required and actual contributions amounted to \$30,463.

D. Building department activities

Building department revenues and expenditures for the year were as follows:

Revenues	\$ 54,563
Expenditures	(46,691)
Operating deficit from prior years	<u>(15,120)</u>
Total operating deficit, cumulative	<u>\$ (7,248)</u>

CITY OF LINDEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

V. RESTATEMENTS

A. Implementation of new accounting standards

As of and for the year ended June 30, 2004, the City implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- ◆ No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*
- ◆ No. 37 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*
- ◆ No. 38 – *Certain Financial Statement Note Disclosures*

Interpretation

- ◆ No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on the size of the government) through fiscal years ending in 2005. The City is required to implement the new requirements no later than the fiscal year ending June 30, 2004.

The more significant of the changes required by the new standards include:

- ◆ Management’s discussion and analysis;
- ◆ Basic financial statements that include:
 - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
 - Fund financial statements, consisting of a series of statements that focus on a government’s major governmental funds and enterprise funds;
 - Schedules to reconcile the fund financial statements to the government-wide financial statements;
 - Notes to the basic financial statements;
- ◆ Required supplementary information, including certain budgetary schedules.

CITY OF LINDEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

As a result of implementing these pronouncements for the fiscal year ended June 30, 2004, the following restatements were made to beginning net assets:

Government-wide financial statements.

Beginning net assets for governmental activities were determined as follows:

Fund balances of general, special revenue, capital project and permanent funds as of 6/30/03	\$ 2,149,424
Add: long-term receivables as of 6/30/03	1,074,696
Add: governmental capital assets, including general fixed assets, as of 6/30/03	2,181,274
Deduct: accumulated depreciation as of 6/30/03 on above governmental fixed assets	(374,579)
Deduct: accrued interest payable as of 6/30/03	(24,305)
Deduct: installment contracts payable as of 6/30/03	(160,000)
Deduct: bonds payable as of 6/30/03	(2,957,310)
Deduct: accumulated compensated absences liability as of 6/30/03	(37,441)
Elimination of internal service fund activities as of 6/30/03	<u>376,391</u>
Governmental net assets, restated, as of 6/30/03	<u>\$ 2,228,150</u>

Beginning net assets for business-type activities were determined as follows:

Retained earnings of enterprise funds as of 6/30/03	\$ 2,873,772
Elimination of internal service fund activities as of 6/30/03	<u>(16,258)</u>
Business-type net assets, restated, as of 6/30/03	<u>\$ 2,890,030</u>

CITY OF LINDEN, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

B. Prior period adjustments

The City has adjusted opening net assets in the proprietary funds to properly reflect the recording of accrued interest on long-term debt. As a result, the beginning net asset balances in the Sewer, Water and Internal Service Funds have been restated as follows:

	<u>Sewer</u>	<u>Water</u>	<u>Internal Service</u>
Beginning net assets	\$2,093,794	\$ 829,918	\$ 406,909
Adjustment to reflect accrued interest payable	<u>(41,168)</u>	<u>(8,772)</u>	<u>(14,260)</u>
Beginning net assets, as restated	<u>\$2,052,626</u>	<u>\$ 821,146</u>	<u>\$ 392,649</u>

* * * * *

NONMAJOR GOVERNMENTAL FUNDS

CITY OF LINDEN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2004

	SPECIAL REVENUE		
	RETIREE HEALTH CARE	N. BRIDGE ST. DEBT SERVICE	E. ROLSTON RD. DEBT SERVICE
Assets			
Cash and cash equivalents	\$ -	\$ 1,277	\$ 11,573
Investments	14,336	-	-
Special assessments receivable:			
Current	-	4,364	3,236
Long-term	-	3,759	5,354
Total assets	\$ 14,336	\$ 9,400	\$ 20,163
Liabilities and fund equity			
Liabilities			
Deferred revenue	\$ -	\$ 3,759	\$ 5,354
Fund equity			
Reserved for retiree health care	14,336	-	-
Reserved for cemetery maintenance	-	-	-
Reserved for debt retirement	-	5,641	14,809
Total fund equity	14,336	5,641	14,809
Total liabilities and fund equity	\$ 14,336	\$ 9,400	\$ 20,163

DEBT SERVICE					PERMANENT FUND CEMETARY TRUST	TOTAL
MEADOWGREEN DEBT SERVICE	E. BROAD DEBT SERVICE	W. BROAD DEBT SERVICE	TICKNER DEBT SERVICE	TOTAL		
\$ 69,713	\$ 78,354	\$ 85,000	\$ 74,193	\$ 320,110	\$ 9,698	\$ 329,808
-	-	-	-	-	77,505	91,841
9,020	20,974	26,198	31,595	95,387	-	95,387
41,319	119,398	169,203	223,562	562,595	-	562,595
<u>\$ 120,052</u>	<u>\$ 218,726</u>	<u>\$ 280,401</u>	<u>\$ 329,350</u>	<u>\$ 978,092</u>	<u>\$ 87,203</u>	<u>\$ 1,079,631</u>

\$ 41,319	\$ 119,398	\$ 169,203	\$ 223,562	\$ 562,595	\$ -	\$ 562,595
-	-	-	-	-	-	14,336
-	-	-	-	-	87,203	87,203
78,733	99,328	111,198	105,788	415,497	-	415,497
78,733	99,328	111,198	105,788	415,497	87,203	517,036
<u>\$ 120,052</u>	<u>\$ 218,726</u>	<u>\$ 280,401</u>	<u>\$ 329,350</u>	<u>\$ 978,092</u>	<u>\$ 87,203</u>	<u>\$ 1,079,631</u>

CITY OF LINDEN
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	SPECIAL REVENUE		
	RETIREE HEALTH CARE	N. BRIDGE ST. DEBT SERVICE	E. ROLSTON RD. DEBT SERVICE
Revenues			
Special assessments	\$ -	\$ 4,364	\$ 3,236
Interest	99	55	354
Total revenues	<u>99</u>	<u>4,419</u>	<u>3,590</u>
Expenditures			
Debt service:			
Principal	-	10,000	15,000
Interest	-	1,800	3,345
Paying agent fees	-	-	250
Total expenditures	<u>-</u>	<u>11,800</u>	<u>18,595</u>
Revenues over (under) expenditures	<u>99</u>	<u>(7,381)</u>	<u>(15,005)</u>
Other financing sources (uses)			
Transfers in	5,000	7,000	-
Transfers (out)	-	-	-
Total other financing sources (uses)	<u>5,000</u>	<u>7,000</u>	<u>-</u>
Net change in fund balances	<u>5,099</u>	<u>(381)</u>	<u>(15,005)</u>
Fund balances, beginning of year	<u>9,237</u>	<u>6,022</u>	<u>29,814</u>
Fund balances, end of year	<u>\$ 14,336</u>	<u>\$ 5,641</u>	<u>\$ 14,809</u>

MEADOWGREEN DEBT SERVICE	E. BROAD DEBT SERVICE	W. BROAD DEBT SERVICE	TICKNER DEBT SERVICE	TOTAL	PERMANENT FUND CEMETARY TRUST	TOTAL
\$ 18,171	\$ 24,336	\$ 33,431	\$ 51,295	\$ 134,833	\$ -	\$ 134,833
1,444	1,757	1,937	1,553	7,100	610	7,809
19,615	26,093	35,368	52,848	141,933	610	142,642
15,000	15,000	20,000	30,000	105,000	-	105,000
7,043	12,753	13,465	14,175	52,581	-	52,581
250	275	275	275	1,325	-	1,325
22,293	28,028	33,740	44,450	158,906	-	158,906
(2,678)	(1,935)	1,628	8,398	(16,973)	610	(16,264)
-	-	-	-	7,000	3,825	15,825
-	-	-	-	-	(610)	(610)
-	-	-	-	7,000	3,215	15,215
(2,678)	(1,935)	1,628	8,398	(9,973)	3,825	(1,049)
81,411	101,263	109,570	97,390	425,470	83,378	518,085
\$ 78,733	\$ 99,328	\$ 111,198	\$ 105,788	\$ 415,497	\$ 87,203	\$ 517,036

SUPPLEMENTARY INFORMATION

SCHEDULE OF INDEBTEDNESS

**CITY OF LINDEN
SCHEDULE OF INDEBTEDNESS
JUNE 30, 2004**

DESCRIPTION	PAYMENT DATE	DEBT SERVICE PAYMENT	INTEREST PORTION	PRINCIPAL PORTION
INSTALLMENT PURCHASES				
East Street Drain Installment Contract Payable	08-5-04	\$ 2,229	\$ 2,229	\$ -
	02-5-05	25,085	2,228	22,857
	08-5-05	1,857	1,857	-
	02-5-06	24,714	1,857	22,857
	08-5-06	1,486	1,486	-
	02-5-07	24,343	1,486	22,857
	08-5-07	1,114	1,114	-
	02-5-08	23,971	1,114	22,857
	08-5-08	743	743	-
	02-5-09	23,600	743	22,857
	08-5-09	371	371	-
	02-5-10	23,229	371	22,858
		<u>\$ 152,742</u>	<u>\$ 15,599</u>	<u>137,143</u>
Boardwalk Installment Contract Pable	10-15-04	\$ 34,973	\$ 2,440	32,533
	10-15-05	34,973	1,646	33,327
	10-15-06	34,973	833	34,140
		<u>\$ 104,919</u>	<u>\$ 4,919</u>	<u>100,000</u>
2001 Installment Loan Payable - Equipment Fund	07-1-04	\$ 29,979	\$ 6,188	23,791
	07-1-05	29,979	4,773	25,206
	07-1-06	29,979	3,273	26,706
	07-1-07	29,979	1,684	28,295
		<u>\$ 119,916</u>	<u>\$ 15,918</u>	<u>103,998</u>
2003 Installment Loan Payable - Equipment Fund	07-25-04	\$ 18,294	\$ 6,771	11,523
	07-25-05	18,294	6,164	12,130
	07-25-06	18,293	5,524	12,769
	07-25-07	18,293	4,851	13,442
	07-25-08	18,294	4,143	14,151
	07-25-09	18,293	3,397	14,896
	07-25-10	18,294	2,612	15,682
	07-25-11	18,294	1,786	16,508
	07-25-12	18,294	915	17,379
		<u>\$ 164,643</u>	<u>\$ 36,163</u>	<u>128,480</u>
TOTAL INSTALLMENT CONTRACTS				<u>\$ 469,621</u>

(Continued)

CITY OF LINDEN
SCHEDULE OF INDEBTEDNESS (CONTINUED)
JUNE 30, 2004

DESCRIPTION	PAYMENT DATE	DEBT SERVICE PAYMENT	INTEREST PORTION	PRINCIPAL PORTION
TRANSPORTATION FUND BONDS				
1991 Transportation Bonds Payable	08-1-04	\$ 16,028	\$ 1,028	\$ 15,000
	02-1-05	518	518	-
	08-1-05	15,518	518	15,000
		<u>\$ 32,064</u>	<u>\$ 2,064</u>	<u>30,000</u>

The 1991 Transportation Bonds are subject to optional redemption in whole or in part in integral multiples of \$5,000, on any date on or after February 1, 2003, at the rate of 100% of outstanding principal.

1997 A Michigan Transportation Fund Bonds - Hickory Street	11-1-04	\$ 18,765	\$ 3,765	15,000
	05-1-05	3,390	3,390	-
	11-1-05	18,390	3,390	15,000
	05-1-06	3,007	3,007	-
	11-1-06	18,008	3,008	15,000
	05-1-07	2,617	2,617	-
	11-1-07	17,618	2,618	15,000
	05-1-08	2,220	2,220	-
	11-1-08	22,220	2,220	20,000
	05-1-09	1,680	1,680	-
	11-1-09	21,680	1,680	20,000
	05-1-10	1,130	1,130	-
	11-1-10	21,130	1,130	20,000
	05-1-11	570	570	-
	11-1-11	20,570	570	20,000
		<u>\$ 172,995</u>	<u>\$ 32,995</u>	<u>140,000</u>

The 1997 A bonds are subject to early redemption in integral multiples of \$5,000. Bonds maturing in the years 2000 to 2004, inclusive, shall not be subject to redemption prior to maturity. Bonds maturing in the years 2005 to 2011, inclusive, shall be subject to redemption prior to maturity, at the option of the City, in such order as the City shall determine, on any interest payment date after November 1, 2004.

TOTAL TRANSPORTATION FUND BONDS				<u>\$ 170,000</u>
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(Continued)

CITY OF LINDEN
SCHEDULE OF INDEBTEDNESS (CONTINUED)
JUNE 30, 2004

DESCRIPTION	PAYMENT DATE	DEBT SERVICE PAYMENT	INTEREST PORTION	PRINCIPAL PORTION
GENERAL OBLIGATION BONDS				
2000 General Obligation Bonds - East Broad Street	11-1-04	\$ 28,791	\$ 8,791	\$ 20,000
	05-1-05	8,271	8,271	-
	11-1-05	28,271	8,271	20,000
	05-1-06	7,741	7,741	-
	11-1-06	32,741	7,741	25,000
	05-1-07	7,066	7,066	-
	11-1-07	32,066	7,066	25,000
	05-1-08	6,385	6,385	-
	11-1-08	31,385	6,385	25,000
	05-1-09	5,698	5,698	-
	11-1-09	35,698	5,698	30,000
	05-1-10	4,858	4,858	-
	11-1-10	34,858	4,858	30,000
	05-1-11	4,003	4,003	-
	11-1-11	34,003	4,003	30,000
	05-1-12	3,133	3,133	-
	11-1-12	38,133	3,133	35,000
	05-1-13	2,100	2,100	-
	11-1-13	37,100	2,100	35,000
	05-1-14	1,050	1,050	-
	11-1-14	36,050	1,050	35,000
		<u>\$ 419,401</u>	<u>\$ 109,401</u>	<u>310,000</u>
2002 General Obligation Bonds - Tickner Street	11-1-04	\$ 11,551	\$ 11,551	-
	05-1-05	41,551	11,551	30,000
	11-1-05	11,004	11,004	-
	05-1-06	41,004	11,004	30,000
	11-1-06	10,441	10,441	-
	05-1-07	45,441	10,441	35,000
	11-1-07	9,768	9,768	-
	05-1-08	44,767	9,767	35,000
	11-1-08	9,076	9,076	-
	05-1-09	44,076	9,076	35,000
	11-1-09	8,368	8,368	-
	05-1-10	48,367	8,367	40,000
	11-1-10	7,538	7,538	-
	05-1-11	47,537	7,537	40,000
	11-1-11	6,688	6,688	-
	05-1-12	51,687	6,687	45,000
	11-1-12	5,709	5,709	-
	05-1-13	50,709	5,709	45,000
	11-1-13	4,708	4,708	-
	05-1-14	49,707	4,707	45,000
	11-1-14	3,684	3,684	-
	05-1-15	53,684	3,684	50,000
	11-1-15	2,521	2,521	-
	05-1-16	52,521	2,521	50,000
	11-1-16	1,334	1,334	-
	05-1-17	56,334	1,334	55,000
		<u>\$ 719,775</u>	<u>\$ 184,775</u>	<u>535,000</u>

(Continued)

CITY OF LINDEN
SCHEDULE OF INDEBTEDNESS (CONTINUED)
JUNE 30, 2004

DESCRIPTION	PAYMENT DATE	DEBT SERVICE PAYMENT	INTEREST PORTION	PRINCIPAL PORTION
GENERAL OBLIGATION BONDS (CONT.)				
2003 General Obligation Bonds - North Bridge Street	11-1-04	\$ 28,770	\$ 5,728	\$ 23,042
	05-1-05	5,498	5,498	-
	11-1-05	28,540	5,498	23,042
	05-1-06	5,267	5,267	-
	11-1-06	28,309	5,267	23,042
	05-1-07	5,037	5,037	-
	11-1-07	28,079	5,037	23,042
	05-1-08	4,783	4,783	-
	11-1-08	27,825	4,783	23,042
	05-1-09	4,513	4,513	-
	11-1-09	30,435	4,513	25,922
	05-1-10	4,182	4,182	-
	11-1-10	30,104	4,182	25,922
	05-1-11	3,819	3,819	-
	11-1-11	29,741	3,819	25,922
	05-1-12	3,430	3,430	-
	11-1-12	32,232	3,430	28,802
	05-1-13	2,970	2,970	-
	11-1-13	31,772	2,970	28,802
	05-1-14	2,480	2,480	-
	11-1-14	31,282	2,480	28,802
	05-1-15	1,961	1,961	-
	11-1-15	33,644	1,962	31,682
	05-1-16	1,359	1,359	-
	11-1-16	33,041	1,359	31,682
	05-1-17	726	726	-
	11-1-17	35,290	726	34,564
		<u>\$ 475,089</u>	<u>\$ 97,779</u>	<u>377,310</u>
TOTAL GENERAL OBLIGATION BONDS				<u>\$ 1,222,310</u>
SPECIAL ASSESSMENT BONDS				
1991 Special Assessment Bonds - North Bridge Street	11-1-04	\$ 10,720	\$ 720	\$ 10,000
	05-1-05	360	360	-
	11-1-05	10,360	360	10,000
		<u>\$ 21,440</u>	<u>\$ 1,440</u>	<u>20,000</u>

The 1991 Special Assessment Bonds are subject to optional redemption in whole or in part in integral multiples of \$5,000, on any date on or after November 1, 2001, at the rate of 101% of outstanding principal called during November 1, 2001 to October 31, 2002, and 100% of outstanding principal called November 1, 2002 and thereafter.

(Continued)

CITY OF LINDEN
SCHEDULE OF INDEBTEDNESS (CONTINUED)
JUNE 30, 2004

DESCRIPTION	PAYMENT DATE	DEBT SERVICE PAYMENT	INTEREST PORTION	PRINCIPAL PORTION
SPECIAL ASSESSMENT BONDS (CONT.)				
1992 Special Assessment Bonds - East Rolston Road	11-1-04	\$ 16,440	\$ 1,440	\$ 15,000
	05-1-05	968	968	-
	11-1-05	15,968	968	15,000
	05-1-06	488	488	-
	11-1-06	15,488	488	15,000
		<u>\$ 49,352</u>	<u>\$ 4,352</u>	<u>45,000</u>
1996 A Special Assessment Bonds - Meadowgreen Lane	11-1-04	\$ 18,330	\$ 3,330	15,000
	05-1-05	2,940	2,940	-
	11-1-05	17,940	2,940	15,000
	05-1-06	2,542	2,542	-
	11-1-06	17,543	2,543	15,000
	05-1-07	2,137	2,137	-
	11-1-07	17,138	2,138	15,000
	05-1-08	1,725	1,725	-
	11-1-08	16,725	1,725	15,000
	05-1-09	1,305	1,305	-
	11-1-09	16,305	1,305	15,000
	05-1-10	877	877	-
	11-1-10	15,878	878	15,000
	05-1-11	442	442	-
	11-1-11	15,446	446	15,000
		<u>\$ 147,273</u>	<u>\$ 27,273</u>	<u>120,000</u>
2000 A Special Assessment Bonds - East Broad Street	11-1-04	\$ 26,185	\$ 6,185	20,000
	05-1-05	5,665	5,665	-
	11-1-05	25,665	5,665	20,000
	05-1-06	5,135	5,135	-
	11-1-06	25,135	5,135	20,000
	05-1-07	4,595	4,595	-
	11-1-07	24,595	4,595	20,000
	05-1-08	4,050	4,050	-
	11-1-08	24,050	4,050	20,000
	05-1-09	3,500	3,500	-
	11-1-09	23,500	3,500	20,000
	05-1-10	2,940	2,940	-
	11-1-10	22,940	2,940	20,000
	05-1-11	2,370	2,370	-
	11-1-11	22,370	2,370	20,000
	05-1-12	1,790	1,790	-
	11-1-12	21,790	1,790	20,000
	05-1-13	1,200	1,200	-
	11-1-13	21,200	1,200	20,000
	05-1-14	600	600	-
	11-1-14	20,600	600	20,000
		<u>\$ 289,875</u>	<u>\$ 69,875</u>	<u>220,000</u>

(Continued)

CITY OF LINDEN
SCHEDULE OF INDEBTEDNESS (CONTINUED)
JUNE 30, 2004

DESCRIPTION	PAYMENT DATE	DEBT SERVICE PAYMENT	INTEREST PORTION	PRINCIPAL PORTION
SPECIAL ASSESSMENT BONDS (CONT.)				
2001 Special Assessment Bonds - West Broad Street	11-1-04	\$ 26,533	\$ 6,533	\$ 20,000
	05-1-05	6,122	6,122	-
	11-1-05	26,123	6,123	20,000
	05-1-06	5,702	5,702	-
	11-1-06	25,703	5,703	20,000
	05-1-07	5,272	5,272	-
	11-1-07	25,273	5,273	20,000
	05-1-08	4,822	4,822	-
	11-1-08	24,823	4,823	20,000
	05-1-09	4,362	4,362	-
	11-1-09	29,363	4,363	25,000
	05-1-10	3,775	3,775	-
	11-1-10	28,775	3,775	25,000
	05-1-11	3,175	3,175	-
	11-1-11	28,175	3,175	25,000
	05-1-12	2,562	2,562	-
	11-1-12	27,563	2,563	25,000
	05-1-13	1,937	1,937	-
	11-1-13	26,938	1,938	25,000
	05-1-14	1,300	1,300	-
	11-1-14	26,300	1,300	25,000
	05-1-15	656	656	-
	11-1-15	25,656	656	25,000
		<u>\$ 360,910</u>	<u>\$ 85,910</u>	<u>275,000</u>
2002 Special Assessment Bonds - Tickner Street	11-1-04	\$ 31,825	\$ 6,825	25,000
	05-1-05	6,375	6,375	-
	11-1-05	31,375	6,375	25,000
	05-1-06	5,913	5,913	-
	11-1-06	30,912	5,912	25,000
	05-1-07	5,438	5,438	-
	11-1-07	30,437	5,437	25,000
	05-1-08	4,950	4,950	-
	11-1-08	29,950	4,950	25,000
	05-1-09	4,450	4,450	-
	11-1-09	29,450	4,450	25,000
	05-1-10	3,938	3,938	-
	11-1-10	28,937	3,937	25,000
	05-1-11	3,413	3,413	-
	11-1-11	28,412	3,412	25,000
	05-1-12	2,875	2,875	-
	11-1-12	27,875	2,875	25,000
	05-1-13	2,325	2,325	-
	11-1-13	27,325	2,325	25,000
	05-1-14	1,763	1,763	-
	11-1-14	26,762	1,762	25,000
	05-1-15	1,188	1,188	-
	11-1-15	26,187	1,187	25,000
	05-1-16	600	600	-
	11-1-16	25,600	600	25,000
		<u>\$ 418,275</u>	<u>\$ 93,275</u>	<u>325,000</u>

(Continued)

CITY OF LINDEN
SCHEDULE OF INDEBTEDNESS (CONTINUED)
JUNE 30, 2004

DESCRIPTION	PAYMENT DATE	DEBT SERVICE PAYMENT	INTEREST PORTION	PRINCIPAL PORTION
SPECIAL ASSESSMENT BONDS (CONT.)				
2003 Special Assessment Bonds - North Bridge Street	11-1-04	\$ 30,700	\$ 5,700	\$ 25,000
	05-1-05	5,425	5,425	-
	11-1-05	30,425	5,425	25,000
	05-1-06	5,150	5,150	-
	11-1-06	30,150	5,150	25,000
	05-1-07	4,875	4,875	-
	11-1-07	29,875	4,875	25,000
	05-1-08	4,600	4,600	-
	11-1-08	29,600	4,600	25,000
	05-1-09	4,300	4,300	-
	11-1-09	29,300	4,300	25,000
	05-1-10	3,975	3,975	-
	11-1-10	28,975	3,975	25,000
	05-1-11	3,625	3,625	-
	11-1-11	28,625	3,625	25,000
	05-1-12	3,250	3,250	-
	11-1-12	28,250	3,250	25,000
	05-1-13	2,850	2,850	-
	11-1-13	32,850	2,850	30,000
	05-1-14	2,340	2,340	-
	11-1-14	32,340	2,340	30,000
	05-1-15	1,800	1,800	-
	11-1-15	31,800	1,800	30,000
	05-1-16	1,230	1,230	-
	11-1-16	31,230	1,230	30,000
	05-1-17	630	630	-
	11-1-17	30,630	630	30,000
		<u>\$ 468,800</u>	<u>\$ 93,800</u>	<u>375,000</u>
TOTAL SPECIAL ASSESSMENT BONDS				<u>\$ 1,380,000</u>

(Continued)

CITY OF LINDEN
SCHEDULE OF INDEBTEDNESS (CONTINUED)
JUNE 30, 2004

DESCRIPTION	PAYMENT DATE	DEBT SERVICE PAYMENT	INTEREST PORTION	PRINCIPAL PORTION
INSTALLMENT CONTRACTS - ENTERPRISE FUNDS				
1998 Sewage Disposal System No. 3 Installment Contract Payable	10-1-04	\$ 53,639	\$ 53,639	\$ -
	04-1-05	178,658	53,638	125,020
	10-1-05	49,263	49,263	-
	04-1-06	174,283	49,263	125,020
	10-1-06	46,012	46,012	-
	04-1-07	171,032	46,012	125,020
	10-1-07	42,730	42,730	-
	04-1-08	194,071	42,731	151,340
	10-1-08	38,644	38,644	-
	04-1-09	199,854	38,644	161,210
	10-1-09	34,292	34,292	-
	04-1-10	205,372	34,292	171,080
	10-1-10	29,673	29,673	-
	04-1-11	207,332	29,672	177,660
	10-1-11	24,875	24,875	-
	04-1-12	205,826	24,876	180,950
	10-1-12	19,990	19,990	-
	04-1-13	204,230	19,990	184,240
	10-1-13	15,015	15,015	-
	04-1-14	199,256	15,016	184,240
	10-1-14	10,041	10,041	-
	04-1-15	194,281	10,041	184,240
	10-1-15	5,067	5,067	-
	04-1-16	189,307	5,067	184,240
		<u>\$ 2,692,743</u>	<u>\$ 738,483</u>	<u>1,954,260</u>

(Continued)

CITY OF LINDEN
SCHEDULE OF INDEBTEDNESS (CONTINUED)
JUNE 30, 2004

DESCRIPTION	PAYMENT DATE	DEBT SERVICE PAYMENT	INTEREST PORTION	PRINCIPAL PORTION
INSTALLMENT CONTRACTS - ENTERPRISE FUNDS (CONT.)				
1998 A Sewage Disposal System No. 3 Installment Contract Payable	10-1-04	\$ 20,916	\$ 20,916	\$ -
	04-1-05	45,920	20,916	25,004
	10-1-05	20,338	20,338	-
	04-1-06	55,212	20,338	34,874
	10-1-06	19,510	19,510	-
	04-1-07	62,280	19,510	42,770
	10-1-07	18,494	18,494	-
	04-1-08	43,498	18,494	25,004
	10-1-08	17,900	17,900	-
	04-1-09	42,904	17,900	25,004
	10-1-09	17,306	17,306	-
	04-1-10	42,310	17,306	25,004
	10-1-10	16,713	16,713	-
	04-1-11	45,665	16,713	28,952
	10-1-11	16,025	16,025	-
	04-1-12	52,873	16,025	36,848
	10-1-12	15,150	15,150	-
	04-1-13	60,552	15,150	45,402
	10-1-13	14,060	14,060	-
	04-1-14	71,306	14,060	57,246
	10-1-14	12,672	12,672	-
	04-1-15	83,078	12,672	70,406
	10-1-15	10,956	10,956	-
	04-1-16	89,916	10,956	78,960
	10-1-16	8,982	8,982	-
	04-1-17	127,422	8,982	118,440
	10-1-17	6,021	6,021	-
	04-1-18	126,435	6,021	120,414
	10-1-18	3,010	3,010	-
	04-1-19	123,424	3,010	120,414
		<u>\$ 1,290,848</u>	<u>\$ 436,106</u>	<u>854,742</u>

TOTAL INSTALLMENT CONTRACTS - ENTERPRISE FUNDS

\$ 2,809,002

(Continued)

CITY OF LINDEN
SCHEDULE OF INDEBTEDNESS (CONTINUED)
JUNE 30, 2004

DESCRIPTION	PAYMENT DATE	DEBT SERVICE PAYMENT	INTEREST PORTION	PRINCIPAL PORTION
REVENUE BONDS - ENTERPRISE FUNDS				
1997 Water Supply System Revenue Bonds - Meadowgreen Lane	11-1-04	\$ 27,775	\$ 2,775	\$ 25,000
	05-1-05	2,100	2,100	-
	11-1-05	27,100	2,100	25,000
	05-1-06	1,413	1,413	-
	11-1-06	26,412	1,412	25,000
	05-1-07	713	713	-
	11-1-07	25,712	712	25,000
		<u>\$ 111,225</u>	<u>\$ 11,225</u>	<u>100,000</u>
1998 Water Supply System Revenue Bonds - Hickory Street	11-1-04	\$ 31,545	\$ 1,545	30,000
	05-1-05	780	780	-
	11-1-05	30,780	780	30,000
		<u>\$ 63,105</u>	<u>\$ 3,105</u>	<u>60,000</u>
2000 Water Supply System Revenue Bonds - East Broad Street	11-1-04	\$ 10,336	\$ 10,336	-
	05-1-05	35,336	10,336	25,000
	11-1-05	9,674	9,674	-
	05-1-06	34,674	9,674	25,000
	11-1-06	8,999	8,999	-
	05-1-07	33,999	8,999	25,000
	11-1-07	8,318	8,318	-
	05-1-08	38,318	8,318	30,000
	11-1-08	7,493	7,493	-
	05-1-09	37,493	7,493	30,000
	11-1-09	6,653	6,653	-
	05-1-10	36,653	6,653	30,000
	11-1-10	5,798	5,798	-
	05-1-11	40,798	5,798	35,000
	11-1-11	4,783	4,783	-
	05-1-12	39,783	4,783	35,000
	11-1-12	3,750	3,750	-
	05-1-13	43,750	3,750	40,000
	11-1-13	2,550	2,550	-
	05-1-14	42,550	2,550	40,000
	11-1-14	1,350	1,350	-
	05-1-15	46,350	1,350	45,000
		<u>\$ 499,408</u>	<u>\$ 139,408</u>	<u>360,000</u>

(Continued)

CITY OF LINDEN
SCHEDULE OF INDEBTEDNESS (CONTINUED)
JUNE 30, 2004

DESCRIPTION	PAYMENT DATE	DEBT SERVICE PAYMENT	INTEREST PORTION	PRINCIPAL PORTION
REVENUE BONDS - ENTERPRISE FUNDS (CONT.)				
2002 Water Supply System Revenue Bonds - West Broad Street	11-1-04	\$ 5,813	\$ 5,813	\$ -
	05-1-05	25,812	5,812	20,000
	11-1-05	5,403	5,403	-
	05-1-06	25,402	5,402	20,000
	11-1-06	4,983	4,983	-
	05-1-07	24,982	4,982	20,000
	11-1-07	4,553	4,553	-
	05-1-08	24,552	4,552	20,000
	11-1-08	4,103	4,103	-
	05-1-09	24,102	4,102	20,000
	11-1-09	3,643	3,643	-
	05-1-10	38,642	3,642	35,000
	11-1-10	2,820	2,820	-
	05-1-11	37,820	2,820	35,000
	11-1-11	1,980	1,980	-
	05-1-12	41,980	1,980	40,000
	11-1-12	1,000	1,000	-
	05-1-13	41,000	1,000	40,000
		<u>\$ 318,590</u>	<u>\$ 68,590</u>	<u>250,000</u>
TOTAL REVENUE BONDS - ENTERPRISE FUNDS				<u>\$ 770,000</u>
GENERAL OBLIGATION BONDS - ENTERPRISE FUNDS				
2003 Special Assessment Bonds - North Bridge Street	11-1-04	\$ 21,174	\$ 4,216	\$ 16,958
	05-1-05	4,046	4,046	-
	11-1-05	21,004	4,046	16,958
	05-1-06	3,877	3,877	-
	11-1-06	20,835	3,877	16,958
	05-1-07	3,707	3,707	-
	11-1-07	20,665	3,707	16,958
	05-1-08	3,520	3,520	-
	11-1-08	20,478	3,520	16,958
	05-1-09	3,321	3,321	-
	11-1-09	22,399	3,321	19,078
	05-1-10	3,078	3,078	-
	11-1-10	22,156	3,078	19,078
	05-1-11	2,811	2,811	-
	11-1-11	21,889	2,811	19,078
	05-1-12	2,525	2,525	-
	11-1-12	23,723	2,525	21,198
	05-1-13	2,185	2,185	-
	11-1-13	23,383	2,185	21,198
	05-1-14	1,825	1,825	-
	11-1-14	23,023	1,825	21,198
	05-1-15	1,444	1,444	-
	11-1-15	24,761	1,444	23,317
	05-1-16	1,000	1,000	-
	11-1-16	24,318	1,000	23,318
	05-1-17	534	534	-
	11-1-17	25,971	534	25,437
		<u>\$ 349,652</u>	<u>\$ 71,962</u>	<u>\$ 277,690</u>

**MISCELLANEOUS STATISTICAL DATA
(UNAUDITED)**

**CITY OF LINDEN
MISCELLANEOUS STATISTICAL DATA (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2004**

Taxable Valuation and Tax Rates (last six years)

	<u>Taxable Value</u>	<u>Tax Rates (Mills)</u>
1998	\$ 49,355,380	12.0
1999	52,200,914	12.0
2000	57,406,045	12.0
2001	64,697,032	11.8145
2002	71,758,570	11.6526
2003	83,385,000	11.3962
2003 State Equalized Valuation:	101,778,000	

2003 Per Capita Valuation (2861 residents)

Taxable Value	\$ 29,045.40
State Equalized Value	35,574.27
Estimated True Cash Value	71,148.54

2003 Tax Base Composition

By Class

Real Property	\$ 80,183,600	96.16%
Personal Property	<u>3,201,400</u>	<u>3.84%</u>
	<u>\$ 83,385,000</u>	<u>100.00%</u>

By Use

Commercial	\$ 9,337,530	11.20%
Industrial	27,900	0.03%
Residential	70,818,170	84.93%
Personal	<u>3,201,400</u>	<u>3.84%</u>
	<u>\$ 83,385,000</u>	<u>100.00%</u>

CITY OF LINDEN
MISCELLANEOUS STATISTICAL DATA (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2004

Major Taxpayers

The top ten taxpayers in the City and their 2003 Taxable Value are as follows:

<u>Taxpayer</u>	<u>Product/Service</u>	<u>Taxable Value</u>	
Consumers Power Co.	Utility	\$ 1,616,500	
Shiawassee Shores Mobile Home Park	Mobile home park	1,383,210	
Spring Meadows Country Club	Country club	1,312,550	
Mitch Hams Building Company	Developer	1,244,310	
Tomyn Enterprises	Developer	958,760	
Sheena, Roumel	Property owner	622,600	
Three A's Corporation	Developer	526,410	
Parkside Place Investments	Apartment buildings	499,630	
Glen Pieczynski	Hardware store/ property owner	362,560	
James McIntyre	Property owner	359,620	
		<u>8,886,150</u>	10.66%
	Other Taxpayers	<u>74,498,850</u>	<u>89.34%</u>
		<u><u>\$ 83,385,000</u></u>	<u><u>100.00%</u></u>

Tax Levies and Collections

A history of tax levies and collections for the City is as follows:

<u>Year</u>	<u>Operating Tax Levy</u>	<u>Collections to March 1, each year</u>	
2003	\$ 950,356	\$ 906,107	95.34%
2002	835,838	805,503	96.37%
2001	764,355	718,460	94.00%
2000	689,083	654,400	94.97%
1999	624,460	590,719	94.60%
1998	591,591	554,544	93.74%
1997	551,618	521,874	94.61%
1996	518,625	489,254	94.34%
1995	468,981	450,081	95.97%
1994	411,151	391,834	95.30%

CITY OF LINDEN
MISCELLANEOUS STATISTICAL DATA (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2004

Computation of Direct and Overlapping Debt

<u>Jurisdiction</u>	<u>Net Debt Outstanding</u>	<u>Percentage Applicable to City of Linden</u>	<u>Amount Applicable to City of Linden</u>
City of Linden	\$ 7,098,623	100%	\$ 7,098,623
Mott Community College and Genesee Intermediate School District	53,278,718	0.78	415,574
Genesee County	37,935,000	0.78	295,893
Linden School District	35,000,000	21.65	7,577,500
	<u>\$ 133,312,341</u>		<u>\$ 15,387,590</u>

Note: The obligations represent bonded debt where an unlimited tax full faith and credit pledge of the government unit is made as security for payment of the associated principal and interest on the bonds.

Debt Ratios at June 30, 2003

	<u>Direct Debt</u>	<u>Overlapping Debt</u>
Per Capita (2,861)	\$ 2,481.17	\$ 5,378.40
Ratio to 2003 Taxable Valuation	8.54%	18.52%
Ratio to 2003 State Equalized Valuation	6.97%	15.12%
Ratio to 2003 True Cash Value	3.49%	7.56%

Pension Fund

The City pays 7% of its employees' wages to the ICMA Retirement Trust 401(k) Plan. The City's contributions for the past six fiscal years are as follows;

<u>Year ended June 30</u>	<u>Amount Paid to Pension Fund</u>
2004	\$ 30,463
2003	33,229
2002	27,915
2001	23,274
1999	17,619
1998	16,238

CITY OF LINDEN
MISCELLANEOUS STATISTICAL DATA (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2004

Legal Debt Margin

Act 279, Public Acts of Michigan, 1909, as amended, provide that the net indebtedness of the City shall not be in excess of 10% of the state equalized valuation of all real and personal property. According to Act 279 bonds not included for purposes of calculating the legal debt margin are:

- (1) Special Assessment Bonds
- (2) Transportation Fund Bonds
- (3) Revenue Bonds
- (4) Pollution Abatement Bonds for public health purposes
- (5) Water Resources Commission or court orderd bonds

2003 State Equalized Valuation		<u>\$ 101,778,000</u>
Debt Limit - 10% of State Equalized Valuation		\$ 10,177,800
Amount of Direct Debt Outstanding	\$ 7,098,623	
Less: Michigan Transportation Fund Bonds	(170,000)	
Special Assessment Bonds	(1,380,000)	
Revenue Bonds	(770,000)	
Installment Contracts	<u>(3,278,623)</u>	
		<u>1,500,000</u>
Legal Debt Margin remaining		<u>\$ 8,677,800</u>

COMPLIANCE AND INTERNAL CONTROL

CITY OF LINDEN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL/PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANT NUMBER	TOTAL GRANT AWARDS	FEDERAL AWARDS EXPENDED
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Passed-through Genesee County Community Development Program:				
Community Development Block Grant	14.218		\$ 78,975	<u>\$ 32,375</u>
FEDERAL FUNDS AUDITED BY OTHERS				
U.S. DEPARTMENT OF TRANSPORTATION				
Passed-through Michigan Department of Transportation				
Transportation Grant	20.205	STP0325020	1,340,700	<u>671,148</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION				<u>671,148</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE				<u><u>\$ 703,523</u></u>

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Linden and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

NOTE 2 FUNDS NOT SUBJECT TO SINGLE AUDIT DETERMINATION

The Transportation Grants passed through the Michigan Department of Transportation (MDOT) are administered by MDOT and are subject to auditing procedures in accordance with the Single Audit Act at the State level. The City includes these funds in the financial statements for the purpose of reflecting all federal awards expended to benefit the City of Linden.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

August 12, 2004

To the City Council
City of Linden
Genesee County, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***City of Linden, Michigan*** as of and for the year ended June 30, 2004 which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 12, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the ***City of Linden's*** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the ***City of Linden's*** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rehmann Lobson